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Making Transatlantic Economic Relations Work

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Abstract

Relative to security issues, Transatlantic Economic Relations (TER) has been neglected by politicians and underexplored by academics and yet is of increasing importance. This article argues that TER is characterised by the mutual dysfunctionality of the political agenda and its institutional structure. The traditional narrow agenda, which has focused almost exclusively on reducing non-tariff trade barriers, is a principal reason for this. This article uses the case of industrial and labour relations to demonstrate that greater engagement with major stakeholders and broadening the political agenda are key to breaking the deadlock. The article also argues for institutional innovations that could in principle be transferred to other neglected policy areas of TER.

In a relative sense Transatlantic Economic Relations (TER) was less explored by American and European politicians for much of the 20th century as the ideological conflict of the cold war and shared security interests took priority. Since the Berlin Wall fell, in the wake of rapidly globalising trade and capital and more recently with the global recession, economic issues and interests have naturally come to prominence and TER, with the European Union (EU) and the United States (US) as key players, has assumed increasing importance. To date, however, the tangible results of TER are widely judged as disappointing.

While TER is the most developed case of economic interregionalism (Hänggi and Roloff, 2006) and has shown significant deficiencies, relative to the security relationship, it remains largely underexplored in academic discussion and analysis. This article however is not intended to survey the existing debates of the topic or the linkages of TER with the wider literature on interregionalism or governance.¹ It moreover seeks to place TER in its broad economic, historical and political context, scrutinise specific institutional and political problems associated with TER and propose policy solutions.

This survey article argues that TER, as it currently operates, is characterised by the mutual dysfunctionality of the political agenda and its institutional structure. It makes the case that it is the traditional narrow political/economic agenda, focused almost exclusively on reducing non-tariff trade barriers, which is culpable for

TER weakness. Focusing on policies and institutions and using the specific case of industrial and labour relations, the greater engagement with major stakeholders is identified as the key to breaking the deadlock in TER.

In order to achieve this broader engagement, the article makes the case for institutional innovations, setting out some key principles and proposing new mechanisms including the creation of a new secretariat to act as a permanent contact point and provide a variety of practical functions. The authors argue that these innovations will not only help to address the problems in the field of industrial and labour relations but could in principle also be transferred to other neglected policy areas of TER. The policy proposals developed in this survey article would help to overcome some of the most important problems of TER and significantly improve its effectiveness. With the Obama administration in Washington and a relatively new European Commission in place there is a window of opportunity to reshape TER and start working on solving its problems by including a wider spectrum of interests and stakeholders.

Transatlantic economic relations in broad context

In a world order that was shaped by the victors of the Second World War and the new ideological conflicts that developed in its wake, transatlantic relations have been

crucial to global stability (Wallace, 2001) and consequently have formed an important part of academic study. Common American and European security interests, organised and resourced through NATO, were prioritised by politicians and academics alike throughout and since the cold war. Indeed, the attention paid in more recent years to the so-called 'Global War on Terrorism' (GWOT) and the differences between US and European approaches (Daalder, 2003) has served to divert attention from other policy fields in which the EU and the US have common concerns and interests. One such policy field is TER, which, when compared to these other features of the relationship, has been less explored by academics and neglected by political leaders.

Interestingly, while the political dynamics of TER reflect the domestic and international political climate, there is a limited correlation to the core economics of the partnership. Pollack and Shaffer have argued that there is no evidence that political frictions in the fields of security and foreign policy have had any significant impact on the volume of transatlantic trade and investment (Pollack and Shaffer, 2006). In terms of many core indicators, the transatlantic economic partnership is the biggest and arguably still the most important one in the world. Comprising roughly 800 million people, the US and the EU accounted for 57 per cent of world GDP, 33 per cent of global trade in goods and 42 per cent of trade of services in 2007 (European Commission, 2008). A research report written for the US Congress summarised the external economic effects of the transatlantic partnership with the conclusion that the 'combined weight of these two economic superpowers means that how the US and EU manage their relationship and the difficult issues involving domestic regulations, competition policy, and foreign investment could well help determine how the rest of the world deals with similar issues' (Ahearn et al., 2008, p. 3). Given a weak framework of global governance institutions and frequently unsuccessful World Trade Organization (WTO) talks, the transatlantic relationship has the potential to establish international economic rules – that could de facto become global standards – using the two blocs' combined power as the biggest producers and consumers of goods and services in the world. And yet it has largely failed in this task.

In historical context, transatlantic cooperation can be traced back to the early 20th century but was first dragged into the political spotlight with President John F. Kennedy's 'Declaration of Interdependence'. In a speech in Philadelphia on 4 July 1962, the president claimed 'that the United States will be ready for a Declaration of Interdependence, [and] that [the US] will be prepared to discuss with a united Europe the ways and means of forming a concrete Atlantic partnership, a mutually beneficial partnership between the new union now emerging in Europe and the old American Union founded ... 175 years ago'

(Kennedy, 1962). Nevertheless, the transatlantic partnership up until 1990 remained motivated by the shared security concerns of the cold war.

Transatlantic relations in the economic field would have to wait until the collapse of the Soviet Empire. And so it was that the 'Transatlantic Declaration' (TD) of 1990 became the first official agreement in the new era of transatlantic relations. A declaration of shared values, it claimed that the US and the European Union were:

mindful of their common heritage and of their close historical, political, economic and cultural ties ... recognizing that the transatlantic solidarity has been essential for the preservation of peace and freedom and for the development of free and prosperous economies as well as for the recent developments which have restored unity in Europe (US Government, 1990).

Significantly, the TD began the process of institutionalising the transatlantic partnership by establishing biannual and ad hoc consultations between EU and US officials and ministers.

The process of institutionalisation went along with a necessary shift in transatlantic relations from security to economic interests. This shift of focus made the transatlantic partnership more complicated since the economic policy field was far more conflict ridden than the comfortable, shared security interests of the cold war. The new framework focused on bringing down economic barriers to trade but it also served to highlight the many differences in regulation and political preferences. As Barry Eichengreen of the University of California at Berkeley observed in 1998, 'Economic globalization in the aftermath of the cold war may be causing tariffs, capital controls, and transport costs to decline, but it is also putting firms in the United States and Europe into closer competition'. He concluded that 'policies on one side of the Atlantic – be they central bank decisions over the interest rate, congressional and parliamentary decisions about the budget, or government decisions about competition and regulatory policy – are having strong repercussions on the other. The scope for conflict in such an environment is considerable' (Eichengreen, 1998, p. 1).

By 1995 the 'New Transatlantic Agenda' (NTA) represented an evolution of the institutionalisation of the bilateral partnership. Signed by US President Bill Clinton, EU Commission President Jacques Santer and EU Council President Felipe Gonz  lez, NTA was a commitment to organised cooperation in the key strategic areas of peace and stability, democracy and development around the world, responding to global challenges, the expansion of world trade and closer economic relations, and building bridges across the Atlantic (European Union, 1995). A series of institutional innovations was created which

Mark Pollack described as 'a new and novel institutional architecture linking Washington and Brussels across a wide range of issue-areas, representing the most systematic effort at genuine bilateral governance in the history of the transatlantic partnership' (Pollack, 2005, p. 900). The NTA complemented the intergovernmental institutionalisation of the TD by creating a variety of civil society dialogues to strengthen Atlantic bridge building and structured networks of lower-level officials. After the NTA, the institutional structure of transatlantic relations looked as follows (Pollack, 2005).

Intergovernmental level

- Regular summit meetings between the US president and a delegation of EU officials (mostly the EU Commission President and the rotating Presidency of the Council of Ministers plus the High Representative for the Common Foreign and Security Policy).

Transgovernmental level

- Transatlantic networks of lower-level US and EU officials working on foreign policy and especially economic issues. These networks work largely unaffected by the dynamics of transatlantic high politics.

Transnational level

- Transatlantic Business Dialogue (TABD) – consisting of European and American CEOs lobbying for the liberalisation of the transatlantic marketplace.
- Transatlantic Consumer Dialogue (TACD) – network of EU and US consumer organisations.
- Transatlantic Labor Dialogue (TALD) – dialogue of trade unions (*had only a handful of meetings but has not been formally abolished*).
- Transatlantic Environmental Dialogue (TAED) – dialogue of environmental stakeholders (*ceased to exist in 2001*).
- Transatlantic Legislator's Dialogue (TLD) – created in 1999 as a formal response of the European Parliament and US Congress to the NTA commitments. Its main aim is to enhance the level of discourse between members of the European Parliament and the US Congress.

The institutional innovations of the NTA were politically amended by the Transatlantic Economic Partnership (TEP) agreement of 1998, which clarified the agenda of the transatlantic economic partnership beyond doubt (European Commission, 1998). The TEP effectively stated that the main purpose of transatlantic economic relations was the abolition of tariff and non-tariff barriers to trade and investment (Meyer, 2008). This narrow political agenda was to have some serious consequences for the effectiveness of transatlantic institutions.

Structural dysfunctionality

Institutional structures are not an end in their own right and exist to support a political agenda. And the narrow political agenda has been at odds with the institutional structure which, at least on the transnational level, included a wider variety of stakeholders. In this situation, the narrow focus on trade liberalisation and deregulation has meant dysfunctionality in the TER process and structure because for many stakeholders in the institutions there was nothing at stake in the agenda (or worse it even contradicted their interests). For example, the Transatlantic Labor Dialogue (TALD) folded after just a few meetings because trade unions believed that there was simply nothing to gain or achieve in the framework of a purely free-market political agenda (Compa and Meyer, 2010). The Transatlantic Environmental Dialogue (TED) suffered a similar fate and ceased to meet in 2001. Even the Transatlantic Business Dialogue (TABD), the transnational dialogue with arguably the biggest interest overlap with the TER agenda, nearly 'ran aground' when it seemed increasingly difficult to deliver progress in the business community's interest (Pollack, 2005).

There was some progress, notably in the area of Mutual Recognition Agreements (MRAs) during the 1990s. But as Pollack and Shaffer explained, 'In the view of many participants, the "low-hanging fruit" for economic cooperation had been picked. Governments on both sides now found it difficult to move beyond symbolic agreements and rearguard efforts at conflict resolution. Enhanced cooperation among regulators had not prevented new and bitter trade disputes from arising' (Pollack and Shaffer, 2006, p. 63).

It was this ineffectiveness of TER that led to the EU Commission's 2004 *Review of the Framework for Relations between the European Union and the United States*. The report highlighted further agenda-setting problems and criticised the tendency of TER to become overloaded with too many issues in very specific economic sectors while failing to prioritise issues of strategic importance. Insufficient political ownership was another problem that was detected by the Commission, which argued that without renewed political commitment at the highest level, strategic agenda setting would be impossible (European Commission, 2004). Some of the report's recommendations were adopted in the most recent transatlantic economic agreement: The Framework for Advancing Transatlantic Economic Integration (FATEI), adopted in April 2007, bringing innovations to the political as well as the institutional levels. Politically, the FATEI to a degree represented a shift of rationale, stressing the external effects of the transatlantic partnership and arguing that deeper transatlantic economic integration 'will encourage other countries to adopt the transatlantic economic model of respect for property rights, openness to

investment, transparency and predictability in regulation, and the value of free markets' (The White House, 2007).

This new awareness of the external impact of the transatlantic economic partnership can be interpreted as somewhat defensive in view of rising competition, especially from China, and its significance was reflected in a report of the Congressional Research Service (CRS): 'Given quite similar interests in bolstering the multilateral trading system, many analysts say that both sides could cooperate more in addressing the rising challenge posed by China' (Ahearn et al., 2008, p. 33). The congressional researchers made a fundamentally important point. In view of rising economic challenges from other parts of the world, the economic interests (especially external ones) of the EU and US are seemingly converging. Although the internal problems in the partnership remain, the changing external framework might well prove to be a driver for intensified transatlantic economic cooperation in the future.

In institutional terms, the FATEI created the most prominent transatlantic institution to date: the Transatlantic Economic Council (TEC), which represents what the 2004 European Commission report was calling for: new political ownership at the highest level. Permanent TEC members are currently the European Commissioners for External Relations and Trade as well as Internal Market and Services. The US side is represented by the US Secretaries of the Treasury and Commerce as well as the US Trade Representative. Upon invitation by the co-chairs of the TEC other EU Commissioners and US cabinet members may take part in TEC meetings (European Commission, 2007). In terms of its internal agenda, the TEC focuses on regulatory cooperation in addition to deeper integration in the areas of intellectual property rights, trade, financial markets, innovation and technology as well as investment.² What the TEC has so far failed to address, however, is the underlying reason for the disappointing results of TER. With a focus on labour and industrial relations, the final part of this article will try to make some progress in doing so and begin to develop political as well as institutional proposals to overcome TER fundamental weakness.

Broadening the political agenda, labour standards and institutional innovation

The promotion of transatlantic trade and the reduction of barriers have been good for EU and US economic development and should continue. In isolation, however, 'free trade' as a political mission or simply as a slogan fails to reflect the complexity of this and other global economic relationships. Even worse, the narrowness of the political agenda has led to the partial dissolution of the institutional structure and the disengagement of the diverse stakeholders required for making TER work.

Furthermore, in reality this huge trading market cannot be accurately described as 'free'. After all, countries and regions have always managed their trade relationships with a range of tariff and non-tariff measures (most recently during the recession, in the use of government procurement to bolster domestic industry).

Trade has always been – directly or indirectly – constrained or enabled by governments and the TEC will not be able to eliminate strategic trade policies. Indeed such systematic failures as have been described might be attributed to the artificial delinking of narrow trade issues and broader social concerns such as labour rights and standards as well as environmental issues. Were it to adopt the more sophisticated mission of managing transatlantic trade relations rather than simply pursuing the singular and unachievable goal of abolishing all trade barriers, the TEC could make some progress in addressing TER dysfunctionality. Tackling this problem would require an inversion of the current dynamics. Instead of pushing stakeholders out of the process with an all too narrow political agenda, the broadening of it would give stakeholders new incentives to participate in a process which would then also address issues of a wider political nature. In doing this, the TEC would be able to make progress in prioritising issues of strategic importance and broaden the political ownership of TER. In view of the history and performance of TER described above, such an evolution of mission and broadening of focus would appear to be a prerequisite if the process is to be reinvigorated.

Such a broadening of the political agenda would however also require a widening of the institutional structure. This article takes the area of industrial and labour relations as a case study to illustrate this need. Simply reinstating the Transatlantic Labor Dialogue as a regular meeting between trade union representatives even in the framework of a broader TER would not adequately represent industrial and labour relations issues. As Professor Lance Compa of the Industrial and Labor Relations School of Cornell University made clear in a recent report, there are a variety of issues in transatlantic industrial relations, including International Labour Organisation (ILO) standards compliance, the undermining of the right of union representation to gain competitive advantage and the regulatory arbitrage of multinational firms operating in both regions, which participants would want to see addressed in the TEC framework if it is to claim relevance (Compa and Meyer, 2010). An institutionalised trade union dialogue alone would not be able to achieve this.

Therefore, in order to integrate properly industrial and labour relations issues in the TER framework, a comprehensive code of conduct for firms involved in transatlantic trade needs to be developed and agreed. Such a new code of conduct representing broader political concerns

needs to be monitored by a reformed institutional structure. Essential reforms include bringing the EU Commissioner for Employment, Social Affairs and Inclusion as well as the US Labor Department's director of the International Labor Affairs Bureau (ILAB) and the US State Department's Assistant Secretary for Democracy, Human Rights and Labor (DRL) into the TEC as permanent members. Furthermore, the re-establishment of the TALD as a coordinating institution and the provision of a dedicated secretariat to fulfil a variety of practical functions would also prove to be indispensable (Compa and Meyer, 2010).

Given insufficient take-up by the wider G20, TEC is a central forum for the EU and US in setting benchmarks for labour and industrial standards. The establishment of a permanent secretariat is above all targeted at operationalising industrial and labour relations issues in the framework of the TEC, linking them into existing mechanisms and procedures and with political institutions such as Congress, the European Parliament, the European Economic and Social Committee (EESC) and the ILO.

The specific tasks of the secretariat should include:

- reviewing and evaluating multinational company management's internal systems of due diligence, communication and social performance;
- conducting an annual Labour Information Audit on the state of labour rights and standards in firms involved in transatlantic trade and investment (noting, for example, whether firms have been found in violation of national labour laws or international labour standards to which both the EU and US have subscribed);
- collaborating with the ILO to advance the Decent Work Agenda, finding ways for the TEC to 'lead by example' in fostering decent work in the context of transatlantic trade and investment;
- receiving complaints, conducting investigations and issuing findings and recommendations on alleged violations of the code of conduct and its principles; and
- recommending harmonised GSP and other preferential trade policies for developing countries' exports to the US and EU to ensure that ILO core labour standards and other international human rights norms are respected in those countries (Compa and Meyer, 2010).

In effect, what is needed to improve the workings of TER is the adoption of a broader political agenda in transatlantic agreements, which provides all stakeholders with motivational influence, together with the legal and institutional structure to make such a programme work. In the case presented above, including industrial and labour standards in agreements would not even entail new commitments by either the EU or the US but merely the restatement of existing commitments in a

new context. Such a move would however reinforce the value of those commitments, especially if accompanied by the introduction of monitorial institutions.

The key principles outlined above are not limited to industrial and labour relations issues but would also work in other vital policy areas that should have a place on the TER agenda, for instance environmental concerns.

Conclusions

In the absence of capable global governance structures, interregionalism has an important governance role to play in an increasingly multipolar world. The transatlantic relationship is the most advanced interregional connection and therefore an important role model. It must not be allowed to fail. The thematic and institutional widening of the relationship – above all by including social and environmental issues – is fundamental to preventing this from happening.

The strategic importance of the transatlantic economic partnership means that its historic dysfunctionality cannot be ignored. This article has sought to explain that its deficiencies lie in a too narrow agenda, focused almost exclusively on matters of deregulation, the continued concentration on which is unlikely to create the necessary political ownership to make transatlantic economic cooperation more effective and live up to its potential and responsibility. Focusing on policy and institutions, with reference to labour and industrial standards, this article also argued that widening the TEC's mission to engage key stakeholders currently excluded and acknowledging the social dimension now largely ignored would go some way to making TER work. To support this, a series of institutional innovations, including the creation of a new secretariat as a permanent contact point, would be a practical requirement. The underlying rationale of these proposals could also be replicated in other crucial and underrepresented policy areas of the transatlantic relationship. TER is a laboratory for economic governance mechanisms and we think that we have outlined a worthwhile experiment.

Notes

1. For a broader overview of the existing TER literature and specific case studies please refer to Damro, 2006; Denton, 1999; Egan, 2005; Petersmann and Pollack, 2003; Pollock and Shaffer, 2001.
2. EU–USA Transatlantic Economic Council. Available from: http://ec.europa.eu/enterprise/policies/international/cooperating-governments/usa/transatlantic-economic-council/index_en.htm [Accessed 26 April 2010].

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